

Message Text

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STATE PASS USDA FOR FAS GRAIN AND FEED DIV. AND ERS FROM AGATT

E.O. 11652: N/A
TAGS: EAGR, IN
SUBJECT: GOI ANNOUNCES NEW FOOD POLICY

SUMMARY: IN WHAT REPRESENTS ITS FIRST MAJOR ECONOMIC DECISION,
THE NEW GOVERNMENT ON APRIL 12 ANNOUNCED A COMPREHENSIVE FOOD
POLICY INVOLVING PROCUREMENT PRICES FOR 1977 RABI FOODGRAINS
(SPECIFICALLY, SPRING-HARVESTED WHEAT, BARLEY, AND CHICKPEAS),
THE PROCUREMENT TARGET AND BONUS SCHEME, ELIMINATION OF ZONAL
RESTRICTIONS ON THE MOVEMENT OF WHAT, THE MODE OF PROCUREMENT,
THE ISSUE PRICE FOR WHAT DISTRIBUTED THROUGH THE PUBLIC DISTRI-
BUTION SYSTEM AND TO ROLLER FLOUR MILLS, AND A PROMISE TO EXAMINE
SELECTIVE REDUCTIONS IN THE COST OF SEVERAL FARM INPUTS (E.G.
FERTILIZERS, PESTICIDES, DIESEL, SEEDS,

ELECTRICITY, TRACTORS, ETC), END SUMMARY.

1. SPECIFIC ASPECTS OF TODAY'S ANNOUNCEMENT INCLUDED:

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(1) A SUPPORT PRICE FOR WHEAT OF 110 RUPEES PER QUINTAL
(220.5 LBS), UP 5 RUPEES FROM A LEVEL THAT HAS PREVAILED SINCE
1974-75;
(2) SUPPORT PRICES FOR CHICKPEAS AND BARLEY AMOUNTING TO RS 95
AND 65 PER QUINTAL RESPECTIVELY - REFLECTING A 5 RUPEE HIKE FOR
CHICKPEAS AND NO CHANGE FOR BARLEY;

(3) THE ELIMINATION OF ANY PROCUREMENT TARGETS FOR THE 1977 RABI SEASON - THEREBY ALSO ELIMINATING ANY BONUS FOR EXCEEDING THE TARGETS;

(4) A REMOVAL OF INTERSTATE RESTRICTIONS ON THE MOVEMENT OF WHEAT - A POLICY THAT DOES NOT APPLY TO ROLLER FLOUR MILLERS WHO MUST CONTINUE TO RELY ON GOVERNMENT STOCKS FOR THEIR REQUIREMENTS;

(5) MAINTAINING THE ISSUE PRICE OF WHAT FROM THE CENTRAL POOL FOR SALE THROUGH THE FAIR-PRICE/RATION SHOPS AT RS 125 PER QUINTAL; AND

(6) A REQUEST TO STATES THAT THEY DISCONTINUE PROCUREMENT OF WHEAT THROUGH LEVIES ON PRODUCERS OR TRADERS.

2. THE DECISIONS WERE TAKEN AT A MEETING OF THE ECONOMIC POLICY AND COORDINATING COMMITTEE OF THE UNION CABINET, PRESIDED OVER BY PRIME MINISTER MORARJI DESAI, AND FOLLOWED SEVERAL WEEKS OF POLITICALLY CHARGED NEGOTIATIONS BETWEEN STATE AND CENTRAL GOVERNMENT OFFICIALS. THE ANNOUNCEMENT WAS MADE IN THE CONTEXT OF A NEED TO ADDRESS SUCH PROBLEMS AS THE PROBABLE FURTHER BUILDUP OF ALREADY BURDENSOME FOODGRAIN STOCKS; THE LACK OF ADEQUATE PURCHASING POWER AMONG MILLIONS OF THE POOR AND LANDLESS; SLUGGISH OFFTAKE THROUGH THE NETWORK OF FAIR-PRICE/RATION SHOPS; THE NEED TO BOLSTER WHAT HAS BEEN UNEVEN AND PATCHY PROGRESS IN FOOD GRAIN PRODUCTION TRENDS OVER THE LAST 10-15 YEARS; ISSUES OF INFLATION, BUDGET DEFICITS, AND GROWING FOOD SUBSIDIES; AND THE LIKELIHOOD OF STATE ASSEMBLY ELECTIONS IN VARIOUS MAJOR FOODGRAIN

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PRODUCING STATES AT SOME FUTURE BUT AS YET UNDETERMINED DATE.

3. COMMENT: AS AN EXAMPLE OF THE NEW GOVERNMENT'S RESOLVE IN CONFRONTING ITS FIRST MAJOR ECONOMIC CHALLENGE, THE NEW FOOD POLICY REPRESENTS AN ADEPT AND IMAGINATIVELY ORCHESTRATED ATTEMPT TO DEAL WITH WHAT ARE PROBABLY TRANSITORY ECONOMIC REQUIREMENTS AND POLITICAL REALITIES. DIRECT WHEAT PROCUREMENT AT LAST YEAR'S PRICE OF RS 105 AND A PROCUREMENT TARGET OF 5.5 MILLION TONS (AS RECOMMENDED BY THE AGRICULTURAL PRICES COMMISSION) WERE ESCHEWED AS WERE TRADE PRESSURES FOR AN INCREASE IN THE WHEAT SUPPORT TO RS115 AND APPEALS FROM SEVERAL STATE AND UNION MINISTERS (MOST NOTABLE BEING THE NEW MINISTER OF AGRICULTURE AND IRRIGATION, MR. PARKASH SINGH BADAL) FOR AN INCREASE TO RS 125 PER QUINTAL. THE CHORUS DEMANDING THE HIGHER FIGURE INCLUDED NOT ONLY SUCH TRADITIONAL ADVOCATES AS THE SURPLUS PRODUCING STATES OF PUNJAB, HARYANA, AND MADHYA PRADESH, BUT ALSO SUCH DEFICIT AND/OR SELF-SUFFICIENT STATES AS MAHARASHTRA, GUJARAT, RAJASTHAN, UTTAR PRADESH, AND BIHAR.

IN CONFRONTING THE NEED TO OFFER FARMERS A MORE REMUNERATIVE PRICE, THE GOI WAS ALSO COMPELLED TO ASSURE ITSELF THAT SOME BENEFIT WOULD ACCRUE TO SMALL AND MARGINAL OPEATORS, THEREBY MORE SECURELY UNDERPINNING THE PROSPECTS OF FUTURE AGRICULTURAL PRODUCTION (IT WAS CONCEDED THAT LARGER OPERATORS WOULD HAVE BENEFITTED MORE DIRECTLY FROM SIGNIFICANT UPWARD ADJUSTMENTS IN SUPPORT PRICES). HENCE THE PROMISE WAS MADE TO REVIEW INPUT COSTS FOR POSSIBLE REDUCTIONS.

IN ALL PROBABILITY, THE LARGER ISSUE OF INFLATION DICTATED THE FINAL POLICY MIX. IN THE FACE OF HEAVY IMPORTS OF FOODGRAINS DURING CALENDAR 1975 AND 1976 AS WELL AS TWO GOOD YEARS OF AGRICULTURAL PRODUCTION, GOVERNMENT FOODGRAIN STOCKS HAVE REPORTEDLY REACHED AN APPROXIMATE LEVEL OF 19 MILLION TONS. THE TOTAL SUBSIDY ON FOODGRAINS ISSUED THROUGH FAIR-PRICE SHOPS LAST YEAR (1976-77) INCLUDING THE SUBSIDY ON CARRYING COSTS IN UNOFFICIALLY PLACED AT UNCLASSIFIED

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RS 5.06 BILLION. IN ADDITION, SOME 14-15 BILLION RUPEES WERE PUMPED INTO THE ECONOMY BY WAY OF DOMESTICALLY PROCURED STOCKS. FOR THE CURRENT 1977-78 FINANCIAL YEAR (APRIL-MARCH), THE INTERIM BUDGET ENVISAGES A FOOD SUBSIDY AMOUNTING TO RS 4.6 BILLION, A LEVEL THAT MAY UNDERSTATE THE EVENTUAL COST IF CURRENT ESTIMATES OF A REDUCTION IN DISTRIBUTION COSTS AND PURCHASE PRICE OF WHEAT ARE OFF AND IF MORE THAN A MINIMAL LEVEL OF PROCUREMENT IS INESCAPABLE.

BY RESISTING PRESSURES FOR A LARGER HIKE IN PROCUREMENT PRICES, ELIMINATING THE PRACTICE OF ESTABLISHING A PROCUREMENT TARGET AS WELL AS RESTRICTIONS ON THE INTER-STATE MOVEMENT OF WHEAT AND HOLDING ROLLER FLOUR MILLERS TO THE USE OF GOVERNMENT STOCKS, THE GOI'S AIM IS TO SIMULTANEOUSLY ALLEVIATE THE BUDGETARY BURDEN OF FOOD SUBSIDIES AND FOOD STOCKS. OTHER MEASURES, NOT FORMALLY A PART OF THE NEW FOOD POLICY BUT WITH THE SAME GOAL, INCLUDE UTILIZING THE EXISTING GRAIN STOCKS TO SUPPORT EMPLOYMENT-ORIENTED WORK PROGRAMS AND EXTENDING THE PUBLIC DISTRIBUTION SYSTEM TO RURAL AND SEMI-URBAN AREAS. POSITIVE RESULTS FROM SUCH EFFORTS WILL BE HINDERED BY EXPECTATIONS OF A REASONABLY GOOD 1977 RABI WHEAT CROP (THEREBY DIMINISHING THE LIKELIHOOD OF AN APPRECIABLE INCREASE IN THE PUBLIC OFFTAKE) AND MARKETING AND ADMINISTRATIVE DIFFICULTIES THAT WILL BE A FEATURE OF ATTEMPTS TO SIGNIFICANTLY ENLARGE THE NETWORK OF RATION SHOPS. FURTHERMORE, ANY CONSIDERATION OF LOWERING INPUT COSTS (ESPECIALLY FERTILIZERS) WILL NEED TO OFFSET THE EFFECT OF ELIMINATING THE PROCUREMENT BONUS. IN A NORMAL PROCUREMENT YEAR THIS BONUS AMOUNTS TO ROUGHLY RS 200 MILLION AND GOES LARGELY TO SUBSIDIZE THE COSTS OF FERTILIZER TO THE FARMER. FINALLY, THE RELAXATION WHICH CHARACTERIZES THE PRESENT POLICY IS NOT LIKELY TO SURVIVE ANY SERIOUS DROP IN PRODUCTION, WHICH TRADITIONALLY INCREASES

THE NEEDS OF THE PUBLIC DISTRIBUTION SYSTEM WHILE MAKING MORE
DIFFICULT THE GOVERNMENT'S ABILITY TO PURCHASE THE
SYSTEM'S REQUIREMENTS. END COMMENT.SCHNEIDER

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